

**Express Analysis**

Economic Activity and Fiscal Environment

August 2022

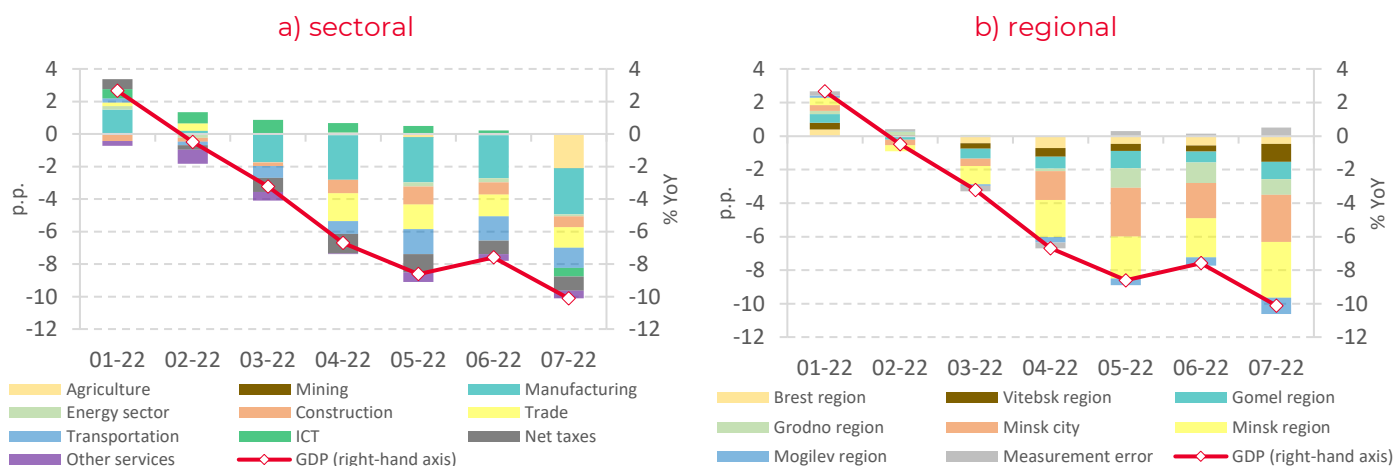
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**Belarusian economy continued stalling in July, and based on the outcomes of the first eight months of the year, the GDP decline will remain over 5% YoY**

The GDP of Belarus has decreased by 5.2% YoY in seven months, which is slightly lower than [the July estimate](#) (-4.5) — (-4.9%). The deviation is due to the slower dynamics of the harvesting campaign in July 2022 vs last year. This factor will change its direction against the backdrop of catching up the pace of grain harvesting and its higher yield already in August. Without the agricultural sector, the GDP decline in January-July would have been at the lower level of the forecast and would amount to 4.8–4.9% YoY.

In July 2022 only, GDP was over 10% lower than in July 2021 (Figure 1.a). Even without the harvesting factor, the decline would have been around 8% YoY, slightly more than the June figure. A more indicative indicator — the seasonally adjusted GDP — also dropped significantly in July 2022. The lion's share of the decline is explained by the temporary deepening of the decline in agricultural production. However, even without taking this factor into account, the seasonally adjusted GDP has shown a negative change. In general, economic activity in Belarus remained weak in July, and adaptation to the new operating conditions is slow.

Figure 1. The GDP growth structure in Belarus



Note: the estimates may be adjusted once Belstat clarifies the data. The energy sector includes water supply.

This Express Analysis is an operational analysis of the status of the key segments of the Belarusian financial market and the most important macroeconomic indicators of Belarus.

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**The value added in the agricultural sector temporarily fell by almost 20% YoY in July, which “bit off” about 2% of GDP**

The shift in the beginning of the 2022 harvesting campaign led to a noticeable decline in the agricultural sector in July. At the same time, grain yields this year are noticeably higher than last year: 38.3 centner/ha as of August 1, 2022 vs 32.6 centner/ha in 2021 (according to Belstat). Due to that, one should expect a compensatory rebound in agricultural production in August and its positive contribution to the GDP dynamics.

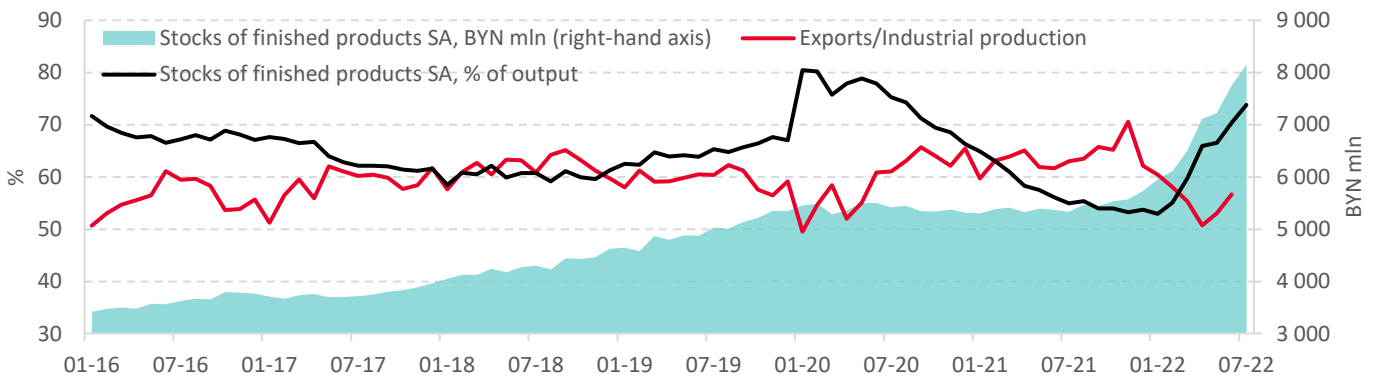
**The ICT sector fell sharply in July, contributing ≈0.5 percentage points to the GDP decline**

The value added in the ICT sector declined by ≈8.3% YoY in July after a slight increase in June. The dynamics of the ICT sector correlates with the decline in the regional product of Minsk City, where the High Tech Park (HTC) is located, which intensified in July 2022 (Figure 1.b). Belstat may refine its seven-month estimate later; however, such a sharp deterioration in the dynamics of the ICT sector does not inspire optimism and increasingly points to probable additional losses in the potential growth rates of the Belarusian economy.

**The slowdown in the decline in the manufacturing, trade, transport and construction sectors registered in June did not continue in July**

The value added in the manufacturing industry fell by more than 13% YoY in July, while inventories continued growing at an accelerated pace (Figure 2). The dynamics of the industry suggests that the recovery in the value of exports of goods in recent months has been mainly due to the price factor: weakening of the US dollar against the Russian ruble has led to an increase in the US dollar equivalent of foreign exchange earnings in the Russian market.

Figure 2. Dynamics of inventories and exports of goods in the industry in 2016–2022



Note: SA is a seasonally adjusted indicator. The X13 procedure in the JDemetra+ app was applied to make a seasonal adjustment. As new data are published, the dynamics of the indicator in previous periods can be updated.

The decrease in the value added in the trade, transport and construction sectors is estimated at about 15.7% YoY, 26% YoY and 13.7% YoY respectively. The decline in the service sectors — with the exception of the trade, ICT and transportation services — also continued in July (Figure 1.a). The general dynamics in the core industries signals stalling in the process of setting up production and logistics chains and weakening of domestic demand in the face of declining incomes of the population, high uncertainty, and risks.

**The annual rate of the GDP decline will slow down in August due to adjustments in the agricultural sector, but in general, the results of the first eight months of the year will show that the decline will remain over 5% (y/y) and it may reach 5.5% against the backdrop of a slow adjustment of the economy to the sanctions modality**

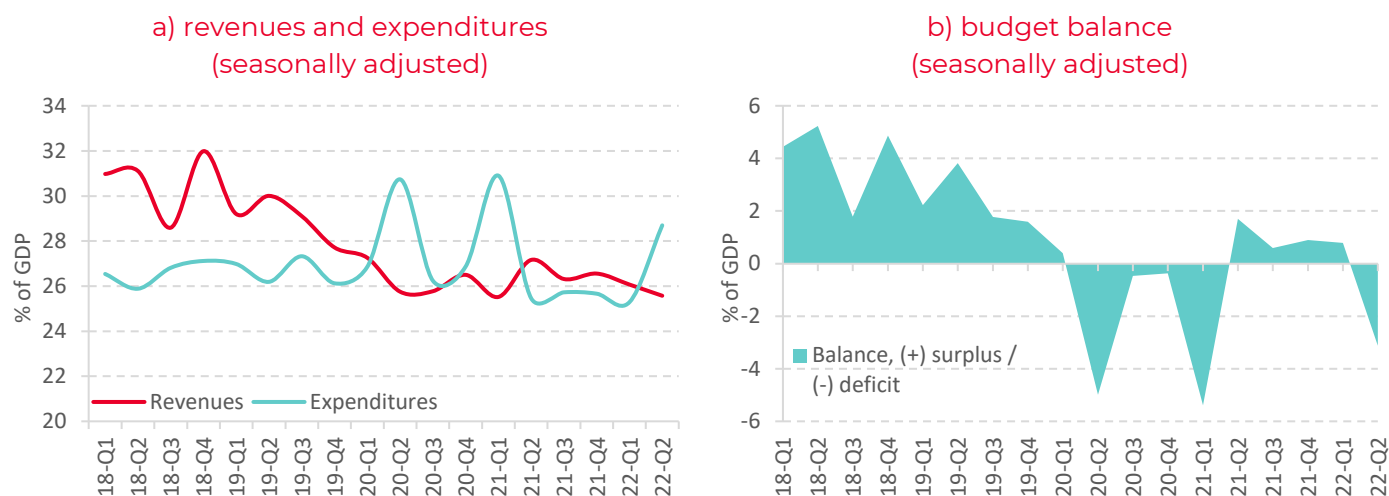
## A larger contraction of the economy has been avoided so far thanks to the easing of monetary and fiscal policies, but at the cost of higher inflation

The liquidity surplus continues growing in the banking system, and the National Bank has actually stopped keeping interest rates at levels matching the inflation target. As a result, rates on the credit and deposit market accelerated their decline in July, and they are likely to continue falling. Loose monetary policy may support lending temporarily, but the dynamics in the market segment will be constrained by high risks and economic outlook uncertainties.

### Fiscal policy is supportive of economic activity this year

The Ministry of Finance has limited the scope of disclosing information on the status of the state budget. Nevertheless, the available data for the first half-year allow us to conclude that fiscal support for the economy increased in Q2. According to preliminary estimates, the seasonally adjusted volume of expenditures of the central government budget increased by 11.5% compared to Q1, while the volume of revenues decreased by 3.6%. As a result, the seasonally adjusted deficit is estimated at about 3.1% of GDP in Q2 following a surplus of 0.8% of GDP in Q1, which indicates a positive fiscal impulse (Figure 3.b).

Figure 3. Belarus' Central Government Budget Indicators



Note: The central government budget includes operations of the national (republican) budget and the budget of the Social Security Foundation (SSF). The X13 procedure in the JDemetra+ app was applied to make a seasonal adjustment. Estimates are subject to change as new data become available.

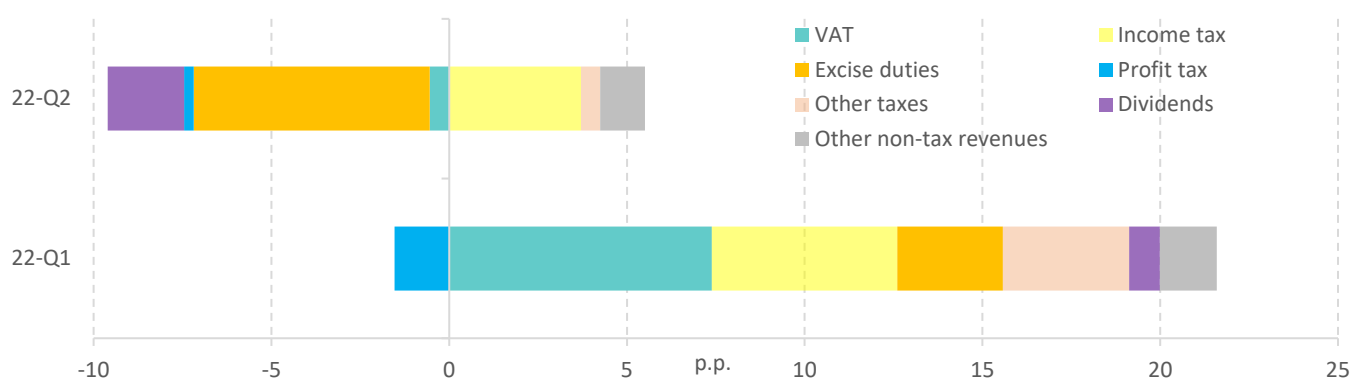
### The decrease in budget revenues is associated both with a weakening economic activity and possibly with the application of the reverse excise tax in oil refining

According to the calculations based on the data by the Ministry of Taxes and Levies (MTL), revenues channeled to the consolidated revenue budget overseen by the MTL decreased by 4.1% in Q2FY22 compared to Q2FY21 in nominal terms (or from 20% of GDP in Q2FY21 to 18% of GDP in Q2FY22). About 0.5 p.p. of the nominal decrease can be explained by the decreased VAT receipts, another 0.3 p.p. can be due to profit tax payments, and about 2.2 p.p. can be due to the dividends of state-owned companies (Figure 4). Receipts of the above-mentioned payments shrunk against the backdrop of the nominal growth in consumption and profits of organizations that continued in the first half of the year, which may indicate regulatory easing. However, in general, the dynamics of the VAT and the profit tax will remain weak in 2022 in the context of the economic downturn.

The key contributor to reducing the budget revenues overseen by the MTL in Q2FY2022 was the drop in excise taxes by almost 67% YoY (Figure 4). According to the MTL, the budget repaid about 268 million rubles of excise taxes in June. The decrease in excise taxes was observed against the backdrop of a negative net cash flow to the budget in Q2FY2022 from the sector of coke production and refined petroleum products. The amount of payments — overseen by tax authorities — made by this sector amounted to 326.5 million rubles in Q1FY2022, and it was only 66.2 million rubles in the first half of the year.

At the same time, the central government budget deficit (780.6 million rubles without seasonal adjustment) was financed by external sources almost entirely (747.7 million rubles) in June. The reduction in excise taxes, the negative net flow to the budget from oil refining, and external financing of the budget deficit all together suggest that a reverse excise mechanism with reimbursements provided by the Russian government budget could be applied to oil refineries.

Figure 4. Contributions of payments overseen by tax authorities to the annual growth of budget revenues



### Budget expenditures increased in Q2 largely due to the replenishment of the statutory funds of banks

The capital of banks increased by more than 3 billion rubles in Q2. This increase could have occurred — at least partially — due to the government's contribution of government bonds to the statutory funds of state-owned banks, which were then bought on the secondary market (the government securities in the National Bank's portfolio grew by 1.33 billion rubles in Q2). Banks could repay part of the “COVID-19” loans to the National Bank using this received liquidity: banks' credit liabilities to the National Bank decreased by 0.92 billion rubles in Q2. Another similar iteration could have happened in July: government securities in the National Bank's portfolio grew by 0.76 billion rubles in one month, while banks' credit liabilities to the National Bank decreased by 0.57 billion rubles. These operations have had a small monetary issuing effect so far, and this has not translated into a significant increase in lending. However, inflationary risks have been rising.

Statutory funds of banks were replenished in April. Seasonally adjusted central government spending jumped to more than 34% of GDP in April vs 25% in Q1. Seasonally adjusted budget expenditures adjusted to about 26.3% of GDP in May-June. This is more than in Q1FY2022, but in general, this is close to the average value for the last five years (with the exception of one-time surges in expenditures in June 2020, January-February 2021, and in April 2022, which was due to the support provided to agricultural enterprises, the Belarusian Metal Works (BMZ) and state-owned banks respectively).